

Message Text

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ACTION EA-10

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: GOJ FISCAL STIMULATION

1. SUMMARY: GOJ OFFICIALLY DENIES IT HAS SOUGHT TO STIMULATE THE DEPRESSED ECONOMY AND MINFIN OHIRA ASSESSES THE OVERALL IMPACT ON THE JAPANESE ECONOMY OF THE BUDGET FOR THE FISCAL YEAR BEGINNING APRIL 1 AS BEING "NEUTRAL." THIS POSTURE IS, NO DOUBT, INTENDED TO CREATE AS MUCH RESTRAINT AS POSSIBLE DURING THE WAGE NEGOTIATIONS THAT ARE CURRENTLY IN PROGRESS. EMBASSY SEES SOME SIGN THAT GOJ HAS ALREADY GIVEN SOME FISCAL STIMULUS TO THE ECONOMY AND PLANS TO PROVIDE MORE IN THE NEXT SIX MONTHS. TO SOME EXTENT THIS MAY BE CONSIDERED MORE "TAKING THE FOOT OFF THE BRAKES" THAN "PRESSING DOWN ON THE ACCELERATOR." CURRENTLY THE OFFICIAL JARGON IS "SMOOTH IMPLEMENTATION" OF BUDGETARY PLANS. END SUMMARY.

2. RECENT GNP STATISTICS (DESPITE ALL OF THE INACCURACIES OF THESE PROVISIONAL FIGURES) INDICATE THE GOVERNMENT SECTOR WAS AN IMPORTANT STIMULANT TO THE ECONOMY. WHEREAS REAL GNP SEASONALLY ADJUSTED DECLINED BY 0.4 PERCENT AND FINAL
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DOMESTIC DEMAND BY 0.1 PERCENT TOTAL GOVERNMENT SECTOR

EXPENDITURE ROSE BY 3.9 PERCENT AND ALL OF THIS WAS CENTERED IN GOVERNMENT FIXED INVESTMENT (UP 6.5 PERCENT). WITH THE EXCEPTION OF PRIVATE HOUSING (WHICH WAS SUPPORTED BY GOVERNMENT LOANS) ALL OTHER COMPONENTS OF PRIVATE SECTOR DEMAND DECLINED IN REAL TERMS (SA) DURING THE FINAL QUARTER OF 1974.

3. OTHER SETS OF STATISTICS ON GOVERNMENT SECTOR SPENDING AVAILABLE AT THIS TIME ARE LESS COMPREHENSIVE THAN THE GNP ACCOUNTS. TOTAL GOJ TREASURY PAYMENTS TO THE PUBLIC WERE UP 27.1 PERCENT YEAR OVER YEAR IN THE FOURTH QUARTER OF 1974 (WHEREAS INCREASE IN JFY 73/72 WAS ONLY 14.9 PERCENT). TO SOME EXTENT THIS REPRESENTS INTENTIONAL DELAYS IN PUBLIC WORKS AND OTHER EXPENDITURES IN THE FIRST HALF OF THE FISCAL YEAR AND A CONSEQUENT ACCELERATION IN THE RATE OF CONTRACT LETTING AND PAYMENT DURING THE SECOND HALF (BEGINNING OCT 1974). IN ADDITION, HOWEVER, THE GOJ GAVE A STIMULUS TO THE DEPRESSED HOUSING INDUSTRY THROUGHOUT 1974 BY BOOSTING NEW LOANS OF THE HOUSING LOAN CORPORATION TO ALMOST DOUBLE THE 1973 RATE.

4. ACCORDING TO GOJ OFFICIALS THIS ACCELERATED IMPLEMENTATION OF AUTHORIZED BUDGET EXPENDITURES BEFORE THE END OF THE FISCAL YEAR HAS CONTINUED IN THE JAN-MARCH 1975 QUARTER. THE ECONOMIC STIMULUS FROM GOVERNMENT SECTOR WILL PERSIST AS THE GOJ BEGINS TO IMPLEMENT "SNMOTHLY" THE SPENDING AUTHORIZED IN THE BUDGET TO BE PASSED BY THE DIET THIS WEEK. IN CONTRAST TO A YEAR AGO WHEN THE GOJ CONTRACTED ONLY 53 PERCENT OF THE FUNDS AVAILABLE FOR PUBLIC WORKS (COMPREHENSIVE DEFINITION INCLUDING HOUSING AND OUTLAYS BY OFFICIAL GOVERNMENT AGENCIES) DURING THE FIRST HALF OF THE FISCAL YEAR, THIS YEAR PLANS CALL FOR CONTRACTING ROUGHLY TWO-THIRDS OF AVAILABLE FUNDS, MOF OFFICIALS CONFIDED TO FINATT. THIS WILL INCREASE AMOUNT OF GOJ CONTRACTS AWARDED FOR PUBLIC WORKS BY MORE THAN 20 PERCENT OVER THE FIRST HALF OF LAST YEAR. NEVERTHELESS THE TWO-THIRDS RATIO IS WELL BELOW THE RATE OF THREE-FOURTHS OF AVAILABLE FUNDS CONTRACTED IN THE FIRST HALVES OF JFY 1971 AND 1972 WHEN THE GOJ WAS VERY ACTIVELY STIMULATING THE ECONOMY THROUGH RAPID INCREASES IN PUBLIC LIMITED OFFICIAL USE

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WORKS SPENDING.

5. COMMENT: ABANDONMENT OF GOJ "RESTRICTIVE" FISCAL POLICY HAS ALREADY GIVEN SOME SUPPORT TO THE SAGGING DOMESTIC ECONOMY. WHETHER CONTINUATION OF THIS MORE "NEUTRAL" POLICY WILL EITHER PREVENT FURTHER DOWNWARD MOVEMENT OR STIMULATE REVIVAL IN THE RATE OF PRIVATE SPENDING REMAINS TO BE SEEN. MOST RECENT COMPREHENSIVE SURVEY

OF PLANT AND EQUIPMENT SPENDING BY JAPAN DEVELOPMENT
BANK (TO BE REPORTED SEPARATELY IN AIRGRAM)
INDICATES SHARP DOWNWARD REVISION IN SPENDING PLANS SINCE
LAST SEPTEMBER (I.E. INCREASE OF LESS THAN TEN PERCENT
COMPARED WITH INCREASE OF OVER 20 PERCENT IN SEPT SURVEY
FOR SPENDING JFY 1975/74). HOWEVER ONCE CONSUMER SPEND-
ING PICKS UP INVESTMENT PLANS COULD BE REVISED
UPWARD. AS YET THERE IS NO FIRM EVIDENCE THAT
CONSUMER SPENDING IS REVIVING.
SHOESMITH

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